MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BBF3084 – GLOBAL FINANCE

(All sections/Groups)

10 MARCH 2016
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 2 Sections only.

2. Section A: Answer **ALL** case questions.
   Section B: Answer any **THREE (3)** out of the FOUR (4) essay and calculation questions.

3. The distribution of the marks for each question is given at the end of each question.

4. Please write your answers in the Answer Booklet provided.

SECTION A: CASE QUESTIONS (40 MARKS)
INSTRUCTION: ANSWER ALL QUESTIONS

Argentina Is Now Open for Business and Foreigners Are Piling In

For the first time in two decades, the U.S. Chamber of Commerce is bringing business leaders to Argentina. Global hedge funds are snapping up the country's assets. Farmers across the fertile pampas are getting ready to empty silo bags of corn and soybeans after years of withholding part of their crop in anger over tax policies.

"**There are many, many opportunities in that country**," Chief Executive Officer Francisco Garza Egloff of Arca Continental said on a conference call with investors Oct. 23. "Well-located, well-positioned in terms of energy, commodity and so on, no debt. It's a tremendous opportunity to work with a well-educated and prepared population."

The turnaround in attitude is stark. For years, doing business in Argentina has been enormously frustrating, with 30 percent inflation, capital and currency controls that make it costly to get money out of the country, sub-par economic growth and unpredictable government policies. The reward has never seemed closer for foreign companies that stuck it out, betting a country that's home to an educated workforce, the world's second-largest shale gas reserves and the third-largest source of soybean exports would eventually normalize. On Nov. 22, Argentines will choose between two presidential candidates who have promised change from the past dozen years of leftist populism led by the Kirchner family.

Unacknowledged in all the enthusiasm is that the turnaround may not be swift or easy in Argentina, and there's no shortage of pessimism on the region as a whole with several European banks shrinking their operations in Latin America.

Argentina is engaged in an epic legal battle with hedge funds fighting for full repayment on debt the country stopped paying in 2001. Its economic data is viewed with skepticism by the International Monetary Fund. Its currency is so overvalued, and limits on buying and selling the dollar are so strict, that the country has developed several parallel exchange rates used by individuals and businesses when they can't get dollars through official channels.

Both leading presidential candidates advocate the need for change, even if they have different approaches. **The opposition's Mauricio Macri has promised to lift capital controls** and let the peso float, while Daniel Scioli of the ruling party vows to make gradual reforms while initially preserving currency controls.

Either way, the change of government will have repercussions for more than 70 companies listed in the S&P 500 Index that have currency exposure in Argentina, according to data compiled by Bloomberg. The country also hosts some of the world's largest energy producers, including BP Plc, Total SA and Petroleo Brasileiro SA.

Both Scioli and Macri have pledged to scrap the 23 percent levy on corn exports and to reduce the 35 percent tax on soybean exports.

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Archer-Daniels-Midland Co., the world's largest corn processor said on a conference call last week that it expects more exports out of Argentina, while BayWa executives told analysts and investors on Nov. 5 that they found the Argentine soy industry to be "very impressive."

Jorge Becerra, a managing director for Latin America at the Boston Consulting Group, said businesses are seeing opportunities to bolster investments in Argentina no matter who wins the election. Companies focused on infrastructure, energy and financial services are among those looking for opportunities in the country, according to Becerra.

Source: http://www.bloomberg.com/news/articles/2015-11-13/argentina-is-now-open-for-business-and-foreigners-are-piling-in

QUESTION 1

Based on the reported inflation rate, how would you predict the change of the exchange rate between the U.S. dollar and the Argentine peso? Assume that the U.S.'s inflation is 3 percent. Why? (6 marks)

QUESTION 2

As a foreign manufacturer in Argentina, what worries might you have regarding the 30 percent inflation rate? Discuss two (2) examples. Explain also three (3) potential risks associated with investments in Argentina. (14 marks)

QUESTION 3

There are capital controls in Argentina. What would you do if you were repositioning your company's cash flows within the multinational structures? Discuss four (4) methods. (20 marks)

(Total: 40 marks)

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SECTION B: ESSAY AND CALCULATION QUESTIONS (60 MARKS)
INSTRUCTION: ANSWER ANY THREE (3) QUESTIONS

QUESTION 1

a. Explain two (2) adverse implications of capital inflows to emerging markets. (10 marks)

b. Suppose that the treasurer of ABC has an extra cash reserve of $100,000,000 to invest for six months. The six-month interest rate is 8 percent per annum in the United States (U.S.) and 7 percent per annum in Germany. Currently, the spot exchange rate is €1.01 per dollar and the six-month forward exchange rate is €0.99 per dollar. The treasurer of ABC does not wish to bear any exchange risk. Where should he/she invest to maximize the return? (10 marks)

(Total: 20 marks)

QUESTION 2

a. Explain how matching currency cash flows can offset operating exposure. (10 marks)

b. Doug Bernard specialises in cross-rate arbitrage. He notices the following quotes:
Swiss franc/dollar = SFr1.5971/$
Australian dollar/U.S. dollar = A$1.8215/$
Australian dollar/Swiss franc = A$1.1440/SFr
Ignoring transaction costs, does Doug Bernard have an arbitrage opportunity based on these quotes? If there is an arbitrage opportunity, what steps would he take to make an arbitrage profit, and how would he profit if he has $1,000,000 available for this purpose. (10 marks)

(Total: 20 marks)

QUESTION 3

Describe four (4) warning signs of a currency crisis. (20 marks)

(Total: 20 marks)

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QUESTION 4

a. U.S. deposit rate for 1 year = 11%
U.S. borrowing rate for 1 year = 12%
New Zealand deposit rate for 1 year = 8%
New Zealand borrowing rate for 1 year = 10%
New Zealand dollar forward rate for 1 year = $0.37
New Zealand dollar spot rate = $0.39

Also assume that a U.S. exporter denominates its New Zealand exports in NZ$ and expects to receive NZ$600,000 in 1 year. Using the information above, what will be the approximate value of these exports in 1 year in U.S. dollars given that the firm executes a money market hedge? (12 marks)

b. Distinguish between eurobond and foreign bond with examples. (8 marks)

(Total: 20 marks)

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